

UC-NRLF



HJ
257
J3

SB 36 695

YC 23139

GIFT OF



EX LIBRIS

844
GIFT
SEP 17 1910

GOVERNMENT FINANCING



IRWIN G. JENNINGS
Assistant Secretary
METROPOLITAN TRUST COMPANY



PUBLISHED BY
THE METROPOLITAN TRUST COMPANY
OF THE CITY OF NEW YORK
60 WALL STREET :: 716 FIFTH AVENUE

9/14

Government Financing

A brief treatise on
a matter of present-day interest
presented in the form of
questions and answers

Irwin G. Jennings
Assistant Secretary
Metropolitan Trust Company

THE METROPOLITAN
TRUST COMPANY

Published by
The Metropolitan Trust Company
of the City of New York

H J257
J3

CONTENTS

PART I SOME OF THE PRACTICE

Pages 5 to 13 inclusive

PART II A LITTLE OF THE THEORY

Pages 13 to 27 inclusive

PART III THE PRESENT LAW

Pages 27 to 34 inclusive

PART IV A FEW SUGGESTIONS

Pages 34 to 46 inclusive

THE AUTHOR
ACKNOWLEDGES

INTRODUCTION

GOVERNMENT finance in war times is not the same as in peace times. The demands of the greatest struggle into which our country has ever entered is calling for financial contributions from every self-respecting American. These contributions may be voluntary gifts or may take the form either of investments in government securities or of tax payments. Very many men who have never felt the burden of taxation, are now required to obtain information on its principles if they are to meet the new obligation intelligently. It is our belief that we should not only have responsible government, but a responsible citizenship, that our government should first be intelligent in its financial policy, courageous in carrying it out, willing to acquaint the tax payer with the reasons for the demands upon him and confident of his ready and patriotic response. We shall endeavor herein by the method of answering the questions which are most likely to occur to the ordinary mind upon the subject of war finance and taxation, to fix such guides as will better enable our readers to understand and appreciate the discussion of the subject which will inevitably be featured in newspapers and periodicals. This booklet contains an outline of the arguments for and against many of the questions that will arise. We hope it will be helpful and suggestive and will stimulate further inquiry into one of our important public questions.

Digitized by the Internet Archive
in 2007 with funding from
Microsoft Corporation

Government Financing

PART I SOME OF THE PRACTICE

"There is little distinction, but no opposition between theory and practice. Each to a certain extent supposes the other. Theory is dependent on practice; practice must have preceded theory."

—Sir W. Hamilton.

Q *Describe briefly the methods used by our own country in financing its wars.*

REVOLUTIONARY WAR. When the Revolutionary War started, the Colonists had practically no funds. There was no taxation. The Continental Congress could only draw against the several colonies. It was difficult for the country to negotiate any loans. However, France, having made us our first loan, was followed later on to a lesser extent by both Holland and Spain. All these loans were paid off between 1791-95. Our first domestic loan of six thousand pounds was made in 1776 and was taken at par. Our second domestic loan was for \$5,000,000, but it was not a success, only about three-fourths of it being raised in twelve months' time. An attempt was even made to raise money through a lottery. Finally, Congress authorized an issue of paper money to meet the expenses of the army and by the year 1780, more than \$200,000,000 of this type of money had been issued by Congress while the colonies had issued an almost similar amount. Before the war was over, this paper

GOVERNMENT FINANCING

money had become practically worthless. It ceased to pass as currency and sold as an article of speculation. It was said that barber shops were papered with the bills. Then came forward certain patriotic citizens, among them Robert Morris, who gave his own security wherever he could to bolster up the credit of the government. The Bank of Pennsylvania greatly aided in financing Washington's army at Valley Forge by issuing its own notes and thus became in all probability the first bank of issue in the country. In 1791, on a real money basis, the total debt was about \$75,000,000. As was noted above, the debt was paid off by the year 1795. There was little financial policy developed—money or credit from any country or any source was acceptable.

THE WAR OF 1812. While this war was anticipated and though it had authorized a loan of \$11,000,000 three months before war was declared, Congress was not ready with an adequate financial policy. Gallatin had given the matter some attention, but wavered in his policy, favoring loans at the beginning, later advocating the raising of enough money by taxes to provide for the annual expenses on a peace basis, the interest on the existing debt and the interest on annual loans. But this decision of his came too late to convert Congress to a strong policy of taxation and the country was committed to financing the war on the credit theory. Of the first \$11,000,000, only a portion was subscribed. The next loan, calling for \$16,000,000, was sold at 88. Short-term treasury certificates bearing interest were also used. At first, these were conservatively used as a temporary loan in anticipation of future revenue, but later on these were issued with no definite

GOVERNMENT FINANCING

provision for redemption, and in denominations of less than \$100, bore no interest. The natural result followed. The credit program of financing broke down and a more vigorous tax policy had to be substituted.

MEXICAN WAR. This was a short war, in which there was no serious financial depression and the debt created was easily met. All the loans were placed at par and a portion of them yielded a premium. The loan was subscribed for in specie, the first loan negotiated on this basis since the foundation of the government. Treasury notes bearing interest were also conservatively used. The credit of the country was high and no financial policy could be said to have been thoroughly demonstrated.

CIVIL WAR. When Lincoln took office, a financial panic was on. When the war broke out, Lincoln appointed Salmon P. Chase, an Ohio lawyer, Secretary of the Treasury, whose experience in public finance was only that which came with his being Governor of Ohio. In 1862, the Legal Tender Act was passed, authorizing an issue of \$150,000,000 worth of legal tender notes and an issue of bonds in the amount of \$500,000,000. The bonds bore interest at 6%. The Civil War loans, with one exception, were all placed at par in currency, subject to a commission to those selling the bonds. Specie payment was suspended. The great weakness in financing the Civil War was in the delay to apply effective taxes. In 1861-2 the ratio of loans to taxes was \$8.32 to \$1, in 1862-3 as \$5.51 to \$1, in 1863-4 as \$3.38 to \$1, and in 1864-5 as \$2.95 to \$1. There was no disposition in the country to shirk the burdens of increased taxation. People were impatient to contribute.

GOVERNMENT FINANCING

The first income tax was authorized August 5, 1861, at a rate of 3% on the excess of all incomes above \$800 per annum. This was increased until in 1865 incomes between \$600 and \$5,000 were taxed at 5%, above \$5,000 at 10%. As to loans, both non-interest bearing and interest bearing notes were used, temporary loans and long term ones. At the end of the war, the country had an indebtedness of about \$3,000,000,000. In the face of the uncertainty and complications that arose, it would take a long stretch of the imagination to denominate our financial policies of the Civil War as successful.

THE SPANISH-AMERICAN WAR. In 1898, Congress authorized an issue of \$200,000,000, 10-20 year bonds. More than \$198,000,000 were sold by the government at par. So popular was this loan that it was oversubscribed seven times. Bonds of this issue during the year 1899 sold as high as 110-3/4. After the war, the Secretary of the Treasury tried to buy these bonds back, but could only purchase about \$20,000,000 of them. The Loan Act was supplemented by the War Revenue Bill of June 13, 1898. Nearly all the taxes on tobacco and fermented liquors were doubled, special taxes were laid upon banks, brokers, proprietors of theatres and amusement places in general. Stamp taxes were imposed upon a great variety of commercial and other transactions. As compared with our present war, the expenditures during the four months of hostilities were not large, but the permanent result of the war was a higher level of expenditures and taxes for all federal purposes.

¶ *What are the methods of taxation adopted in the present war by the principal European belligerents?*

ENGLAND. From the beginning of the war down to October, 1917, the British government followed the usual methods of war financing. The temporary needs of the Government were provided for by the sale of treasury bills or of short-term bonds and when this floating indebtedness became too large, formal war loans were issued for the purpose of funding the temporary debt now no longer relied upon. From the beginning, however, Great Britain more than any other of the European countries has employed a policy of taxation designated for bigger things than of meeting current expenses and paying the interest on the loans. This policy of definite taxation has steadily increased until it has become the controlling feature of the British policy. Especially has the theory of taxing war excess profits developed in England. Here is a real war profits tax. It is not a tax on all profits beyond a certain amount, nor does it depend upon the relation existing between profits and capital. The basic idea of the war profits tax is that there are certain industries which are abnormally stimulated by war and to that extent the gains may rightfully be absorbed to pay for the struggle by which they are brought about. England adopted such a tax beginning with the rate of 50% which was subsequently increased to 60% and has finally been further increased to 80%. The most significant feature of the English statute is to safeguard the tax payer against being required to pay on profits not of the kind intended to be taxed—that is to say, not war profits. Its measure is primarily the increase of the taxable year profits over the profits of the pre-war

GOVERNMENT FINANCING

period which consisted of any two years selected by the tax payer out of three years ending in 1914, with the right in some cases of selecting four years out of the six years preceding the war. It is only in the interest of avoiding injustice that the tax payer is given the choice of having an allowance of percentage on capital invested in place of the allowance based on pre-war profits. A board of referees plays a prominent part in the English system of excess profits taxation and settles many complicated questions. It is especially empowered to make allowance for amortization in case of special plant investments. The English law provides for average increased profits during the entire war period so that if the tax payer's profits in the first year of the war fall below the profits of the pre-war period, an excess profit in the following year is first applied to make good the deficiency and the taxes are applied only if the average profit for the two years shows an increase, and so on for the other years of the war. In spite of its great burdens on the British public, England's tax theory seems to be working very satisfactorily.

FRANCE. In the first part of the war, it was not thought best by the French government to increase the burden of taxation upon its people too rapidly and it was only gradually that the government began to put into effect higher income and inheritance taxes, taxes on war profits and other direct taxes. By the year 1917, however, the greatly increased expenses of the war on the one hand and the development of French industry and commerce by reason of the war on the other, made it highly desirable that a measure should be framed for increasing the revenue from taxation. A new tax measure, accepted by the legislative body, became

GOVERNMENT FINANCING

effective on January 1, 1918. The modified system comprised heavy increases in the tax on inheritances and on war profits. From now on the tax on war profits will run anywhere from 50-80% graduated according to their size. An important feature of the new system consists in taxes upon luxuries. This became effective April 1, 1918. A tax of 10% upon the price paid for any article of merchandise which comes within the luxury class and for expenditures made in such hotels and restaurants as the departmental committee shall designate, is direct in its nature and tends to encourage economy in expenditures. France has borrowed money from Great Britain, Spain, Holland, Norway, Sweden, Denmark and the United States. She has thus availed herself of every legitimate method of raising money, first, by taxes; second, treasury bills; third, long-term bonds; fourth, foreign credit. This foreign borrowing is, in one sense, a weakness, but is necessary and justified by the burden which France has borne.

ITALY is not a rich country. Some doubt was expressed in the beginning about its financial ability. The fiscal returns of the Italian government have been demonstrated as decidedly greater than was expected. Without serious difficulty, eight hundred million dollars in taxes have been raised in a single year through various normal and war taxes. This is double the receipts before the war. By thus uniting the methods of taxation with those of bond issues, the Italian government has maintained a policy of keeping the burden of the war from bearing too heavily upon its poorer people.

GOVERNMENT FINANCING

GERMANY. The extremes of method in providing for war expenses are represented by England and Germany. England up to June 30, 1917, has raised by taxation 24.31% of its expenses. Germany up to that date had not increased its tax revenue even enough to carry the current interest upon its war loans. The original German idea was to finance the war, principal and interest entirely by means of bond issues. Her population was not to be burdened with heavy war taxes as would be the case in the allied countries, but a short war and an early victory were to give enormous indemnities which would not only pay the entire cost of the war, but leave a balance to her credit. Hence, during the first two years of the war, the annual budget was increased only by such small war costs as those for pensions, etc. In 1917, a much larger tax was imposed, and for 1918, the German Government finds itself confronted with the necessity of raising by taxation a still larger amount of money than in any of the earlier years of the war. Previous to this time, no provisions for interest and amortization upon the war debt had been made and the best financial authorities of Germany had become greatly alarmed and justifiably so. Her policy seems to have been from the start to raise all the money possible, regardless of inflation and to leave all arrangement for rectifying her finances until after the war. This policy, continued without modification, would have ended in disaster. As it is, the danger is imminent. The new proposals for the German Empire's budget for 1918 and 1919 are: first, to increase postal, telegraph and telephone rates; second, to increase import duties on tea, coffee, etc.; third, to increase duties on beer and champagne; fourth, to introduce a new tax on non-

GOVERNMENT FINANCING

alcoholic drinks; fifth, to establish a plant monopoly; sixth, to levy a special tax on luxuries; seventh, to increase and extend the tax on stock exchange transactions; eighth, to introduce a new tax on interest paid by banks on deposits. It will be seen that these taxes will not be very productive and that Germany still resorts to indirect taxation. The burden of taxation can thus be shifted with ease to the poorer classes. There is no income tax generally in Germany, although it has been used by the kingdom of Prussia for a long time.

PART II

A LITTLE OF THE THEORY

"To despise theory is to have the excessively vain pretension to do without knowing what one does, and to speak without knowing what one says." —Fontenelle.

¶ *What is the relative importance of government financing in organizing for and carrying on war?*

War financing, in the nature of the case, must be extraordinary. It is vital. Napoleon is said to have attributed his defeat to the ability of England to raise money for war. It has become a truism that the last dollar will win the present war. The problem, therefore, is how best to raise sufficient funds for this war so as to retain the good will and loyalty of our citizenship, to least impair the wealth and tax producing resources of our country and not unnecessarily to handicap its constructive program for the future.

¶ *What are the accepted methods of raising money for war?*

Borrowing and Taxation.

GOVERNMENT FINANCING

¶ *What other method has been discussed?*

Conscription of both income and capital.

¶ *What principal forms does borrowing for war purposes take?*

- (a) Bond issues, (b) time treasury certificate issues,
- (c) demand treasury certificate and note issues.

¶ *In what main particulars do bond issues vary?*

Amount of issue, length of term, rate, convertibility, callability, taxability, denomination, terms of payment, selling price.

¶ *What do these terms mean as applied to these issues?*

AMOUNT OF ISSUE. While Congress may authorize a very large amount of bonds, it is important from the subscription, fiscal and banking standpoints that no one issue shall be so large as to endanger the sale of the entire issue within a reasonable time nor to constitute a too sudden drain upon the money of the country.

LENGTH OF TERM. This is governed by the desire of the government to shift or not to shift the burden of payment upon a later generation. The power to so shift this burden is disputed by some economists. The contention of those favoring long-term bonds, is that future generations, whose rights are protected by the present generation, should bear their proportion of the burden. The argument against the long-term bond is that each generation should take care of its own wars, that every

GOVERNMENT FINANCING

generation is liable to become engaged in a war of its own and therefore the present generation has no right to impose its own burdens upon the next and thus handicap the use of the latter's funds for more constructive purposes.

RATE. By this is meant the percent which the government contracts to pay for the use of funds loaned to it. Some argue for the lowest possible rate, others that the government has no right to expect to borrow money below the market rate and inasmuch as that rate is around 5%, that this should be the rate fixed for the government issue. These would criticise our Liberty Bonds at 3½% and 4% as too low.

CONVERTIBILITY. This is the right of a bond holder to change his bonds into those of another issue. This right in the holder tends to stabilize the price of the bonds and by thus allowing the change of a low rate bond into one of a higher rate, eliminates most of the objections to an issue with a rate below the market.

CALLABILITY. This is the right of the government to call in the loans before the due date, by paying them off. This is a convenient and valuable feature in the bond from the standpoint of the government. There were times in the eighties, following the Civil War, when the government had surplus funds which it desired to use for the purpose of paying off the national debt, but did not have the power to call in any of its bonds.

TAXABILITY. The arguments in favor of exempting government bonds from taxation are as follows: It makes them more salable, it encourages the patriotism of the buyer by giving him a tax-free income and

GOVERNMENT FINANCING

inasmuch as the government does not tax itself, a tax on its securities is inconsistent. The argument against freeing them from taxes is that the taxation of its securities is not a tax on the government, that there is no reason why a holder of government securities should not be taxed on his government holdings since they add to his tax-paying ability, that to exempt war issues tends to emphasize the distinction between the classes by giving the wealthy bond buyers during the war a preferential position, for the taxes to pay off the bonds will be raised from both rich and poor after the war. Again, such a policy is unjust when the government has adopted a progressively higher rate on the incomes of the wealthy by giving them a tax-free investment which, compared with investments in other securities, is equal to a rate on these latter securities much above the market rate, that is, a millionaire holder of $3\frac{1}{2}\%$ tax-free bond receives as much income from this bond, taxes considered, as he would from an 8% or 9% return from a taxable security. To exempt government issues from tax on all bonds in the hands of holders in amounts below the point of beginning of the ascending surtax would not be open to this latter objection. The great weight of the argument, therefore, would seem to be in favor of the policy adopted by our government of taxing its new issues, but freeing them from the normal tax in amounts purchased up to \$5,000.

DENOMINATIONS. In time of war, it is obviously good policy to attract as many government purchasers as possible. This is so because it promotes thrift and encourages patriotism by giving the holder an interest of value in his country's fortunes. It is well, therefore, to issue bonds of smaller face value so as to make

GOVERNMENT FINANCING

them available for the poorer though larger number of citizens.

TERMS OF PAYMENT. This should be made easy both to encourage saving out of current earnings and to prevent too sudden a drain upon bank resources.

SELLING PRICE. Our country's bond issues have not always brought par. Inasmuch as this condition reflects upon its credit, it will obviously be the policy of the government to secure par value for its future issues of the bonds. To do this it may have to raise the rate somewhat nearer the market than at present.

¶ *What is the legitimate purpose of issuing time treasury certificates in time of war?*

They are usually and legitimately used in anticipation of the return of funds from the sale of bonds. They generally bear interest and on account of their temporary character, mature within a comparatively short time after being issued. When issued in unlimited quantities and without regard to the above restriction, they tend to complicate and weaken the government's financial policy.

¶ *What is the status of the war savings certificate?*

The use of this type of certificate does not fall within the objection raised to the indiscriminate use of time certificates above. The emphasis here is not so much the desire on the part of the government to float certificates as it is to induce savings on the part of the wage earners and the great mass of people in general who would not buy bonds of even the smallest denomination, but can be induced to buy the savings stamps. The use

GOVERNMENT FINANCING

of these certificates so far as it goes is one of the best methods of raising funds for war purposes.

¶ *What is the value of demand treasury certificates and notes as a method of war financing?*

They should be used only as a last expedient as they encourage undue inflation. Their former use in American finance has been attended with disastrous results and a policy of issuing them once begun is difficult to check.

¶ *What are the principal divisions of taxation?*

Taxes may be direct and indirect. Direct taxes are those intended to be paid by the person upon whom they are levied. Indirect taxes are paid in the first instance by those upon whom they are levied, but the burden is later expected to shift upon the consumers of the articles taxed. The direct taxes are the income tax, the general property tax, the inheritance tax, the land tax and the poll tax, also the corporation tax, the excess profits tax and the war excess profits tax, which three latter taxes are in some senses of the word indirect. The principal indirect taxes are the customs or tariff and the excise or internal revenue tax.

¶ *What are the advantages and disadvantages of direct taxation?*

Direct taxes are more certain, stable, simple and economical than indirect taxes. As taxes, they are easier to understand than indirect taxes. By their use, duplication is discouraged, there is a stronger appeal

GOVERNMENT FINANCING

to the intelligence and responsibility of the tax payer and they can be better adjusted to his ability to pay. They bear particularly upon the rich and well-to-do provided they are levied upon ascertained property or income.

Their disadvantages are that they are recognized as taxes by the poor and those who object to paying taxes. They cannot be made to reach wage earners and the great body of citizens as readily as indirect taxes. They are more likely to cause political disturbance when increased. They cannot be so readily decreased.

¶ *What are the advantages and disadvantages of indirect taxation?*

Advantages—inasmuch as they can be disguised, indirect taxes reach the wage earners and those who object to paying taxes. When increased, they provoke less political disturbance. They operate as an additional tax upon the wealthy and well-to-do, i. e., they are productive though not always just. They tend to increase and decrease automatically.

Their disadvantages are—that in time of war or great depression when revenue is most needed, they fall off rapidly. They are more expensive to collect and require a larger administrative organization. When largely used, industries affected by them tend toward monopoly. Extravagance in public expenditure develops because the burden of taxation not being brought home to the tax payer, he does not feel a responsibility for funds raised thereby.

¶ *What other division of taxation is there?*

Taxation may be single or multiple. A single tax is

GOVERNMENT FINANCING

one which affects only one kind of income or property, as the land tax advocated by Henry George. By multiple taxation is meant more than one tax upon various kinds of property.

¶ *What are the advantages and disadvantages of single taxes?*

They are more easily understood and estimated, easier and cheaper to collect and administer. Their burden and effect is more easily calculated. Their main disadvantages lie in their inelasticity and their inability to be adjusted to the varying needs of the government. The full burden of taxation is realized and felt by the tax payer. Such tax payers as are so inclined, may conceal their taxable resources and thus escape taxation.

¶ *What are the advantages and disadvantages of multiple taxes?*

The advantages of multiple taxation are that they are paid with less objection. The tax burden is divided and reaches the tax payer at different times. Hence, it is not felt so keenly. These taxes may be made to reach all forms of wealth, even the smallest incomes. They are more productive. They are more adaptable as a means of taxation for the support of the separate federal and state governments. Their disadvantages are that they are more uncertain than single taxes and tend toward duplication and complication in administration.

¶ *What is conscription of capital or income?*

By conscription is meant the arbitrary taking of all or a portion of the income or capital of our citizens for

GOVERNMENT FINANCING

government purposes. Partial conscription of incomes generally applied would be practically equivalent to an income tax. Conscription of capital would at present be in contravention to our constitution as taking private property for a public purpose without compensation.

In England, the proposal has taken several forms. Its most pronounced advocates would make a levy of as much as 20% upon the fortunes of British subjects from the well-to-do classes, up. The Statist of London suggests that the wealthy people of the British Empire voluntarily redeem enough of the debt to make possible an easy reduction of the remainder on the theory that the example thus set by the rich would be most heartily appreciated by the people, and that they might best do this gradually by annual amortization extending over a reasonable number of years. The greater portion of the British public, however, at the present time does not accept either the project itself or its reasonable effects.

¶ *What are the arguments for and against raising war funds by borrowing?*

The main argument for a policy of borrowing is that it is productive, if the loyalty and support of the people can be retained. It has all the advantages which persuasion has over compulsion. The patriotism and loyalty of the people is fanned by the appeal to support their government by investing in its obligations. The thrifty are encouraged to save by investment. The present generation shifts to a later one at least a partial payment of the war expenses. It causes industries which are not handicapped by burdensome taxation to expand and by reason of initiative thus developed during the war period, the industrial machinery of the country is better

G O V E R N M E N T F I N A N C I N G

prepared to engage upon a constructive peace program immediately at the close of the war. This is especially so because many of the non-essential industries which are the more important ones from the standpoint of commercial exchange in peace times, are better protected by the borrowing process of financing.

The arguments against borrowing as a method of war financing are, first, it tends to emphasize the distinction between the rich and the poor by creating two classes among our citizens, the bond holding and the non-bond holding. Those who have the money to invest during the war have been stimulated to thrift by buying the war issues, while the poorer people, burdened with the higher cost of living, have not had the ability to invest. After the war is over, however, the poor must bear their share of taxation to pay off the bonds. Second, it is unjust to the soldiers and sailors engaged in the war, for with their small pay, they are unable to make investments. Their competitors in civil life are thus enabled to improve their position by entering the bond-holding class while the soldiers, having fought the country's battles, must bear their portion of the tax burden to pay for the bonds after the war is over. Third, people cannot be forced to buy bonds, so that everybody with ability to help finance the war is not reached by the borrowing policy. Fourth, the government coming into competition with the people in the market, borrowing causes a general advance in prices, thus increasing the money cost of the war to the government. Fifth, many subscribers to war bonds do not depend upon their past or current savings to pay for them, but borrow from their banks, in many instances giving the bond purchased as a security for the debt. This process expands credit, for

GOVERNMENT FINANCING

the bank issues its notes to the borrower, or its deposits are increased and the practical effect is that while there is an increased amount of money, the same amount of money does not buy the same amount of goods. In the competition between the government and its citizens for goods and labor, the government has the money and is not worried by advancing prices, but the loan is more speedily exhausted. This means new borrowing and so on with each additional loan. With the rise in prices, the amount of necessities which people can buy grows less. This process is called inflation. Sixth, the greater the number of loans, the higher the rates of interest become, thereby adding to the cost of the war which must ultimately be paid by taxation. Seventh, borrowing does not reduce unnecessary consumption to the greatest possible extent because the prosperous will have more money and continue to buy non-essentials. Eighth, the burden of raising taxes after the war to pay for the bonds handicaps the people in raising money for more constructive purposes when peace returns. Ninth, to meet this condition, a concealed or indirect method of taxation is encouraged. Such taxation being based on expenditure, affects the poor to a much greater extent in proportion than the wealthy and places upon them an undue tax burden.

¶ *Have domestic loans any advantages over foreign loans?*

They have all the advantages that come with an organized appeal to patriotism and loyalty in the sale of the bonds, they encourage economy and saving among the nation's own citizens and keep the control of the

GOVERNMENT FINANCING

conditions of the loan with the government itself. Domestic loans are therefore less apt to cause inflation.

¶ *What are the arguments for and against taxation as a means of war financing?*

A policy of taxation is more equitable, first, to those engaged actively in the fighting and, second, to wage earners and those working for salaries. Being compulsory and general, it thus reaches all incomes except those which are exempt. It also has the advantage of the pay-as-you-go policy, by saving the people from paying interest on that part of the cost of the war which is paid during its progress. It encourages and enforces savings and lessens the demand of the citizens for non-essential goods. It tends to transfer to the government that labor which is taken from the non-essential industries discouraged by lack of patronage on the part of the people. It places a large burden of taxation upon the wealthy who are becoming more wealthy by reason of the war. The tax burden is imposed at a time when incomes are high and patriotism is at the boiling point and when such burden will be least felt. By preventing credit expansion and inflation it keeps the cost of the war at a minimum. It improves the morals of the people by compelling self-denial and thrift; every self-denial will release some goods or some service which the government can use. The danger of class antagonism after the war is eliminated.

The disadvantages of this policy are, that it may impair the ability of tax payers to invest in the government securities, which it will inevitably become necessary to issue as the war progresses. It discourages

GOVERNMENT FINANCING

industry by taking away its ability to expand, and thus at the end of the war, when the reconstruction process begins, our ability to supply our own and the world's normal requirements is impaired. Excessive taxation on consumption will cause popular resentment, excessive taxation on business will handicap production, dampen enthusiasm and initiative and restrict the support of developing enterprise at the time when help is most needed. Ill-advised taxation will interfere with the support of educational and philanthropic enterprises.

¶ *What are the advantages and disadvantages of conscription?*

It is urged in England where the matter is most discussed, that whatever the means adopted for meeting the financial burden of that country after the war, it can not be borne to any great extent by the working or salaried classes; therefore, the money can only come from those who have it. It is further urged that the true criterion for graduation in conscription should be based upon the principle that the state should look to what it leaves a man rather than to what it takes from him, that conscription cheerfully acquiesced in by the wealthy would tend to eliminate the antagonism of the poorer classes.

Besides the constitutional objection, conscription would be strongly opposed and impracticable in this country. Some of our capital at least would go into hiding and might be diverted into investments outside of our borders. Besides, in this country there are too many men who have built their fortunes from the ground up to create a welcome atmosphere for so arbitrary a policy. One of the greatest disadvantages with such a

GOVERNMENT FINANCING

system would be the difficulty of equitably valuing the capital assets of a citizen for the purpose of taking a portion of them for government purposes. Much of the taxpayer's wealth is invested in fixed assets which are liable to great and sudden changes due to inventions and improvements in methods. For this reason, the appraisement for the purposes of conscription of a citizen's net worth might be very unjust to him, in view of the fact that the government would take its portion in cash and leave to him his fixed or unliquid assets.

¶ *Name some considerations which enter into the problem of war financing.*

First, the immediate necessities of the case; second, the probable length of the war; third, the wealth of the country; fourth, the credit standing of the country; fifth, the popularity of the war, and sixth, adequacy.

¶ *In what way would these various considerations affect a financing policy?*

First, the necessity of immediate defense might call for a large sum of money which could not wait upon the processes of tax collection, or even upon the receipts from the sale of domestic loans. If the money were not on hand, the only way to raise it might be by negotiating an immediate loan from a foreign country. The sale of domestic bonds would probably precede taxation as a means of obtaining quick results. Second, if there were no considerations of immediate haste in raising funds and the war gave evidence of being a very short one, it might be deemed that less economic disturbance would be occasioned by borrowing money either from a foreign country or from our own citizens than by a policy

GOVERNMENT FINANCING

of taxation. The only trouble with a policy moulded for a short war is, that with the danger of complications that may arise with neutral nations more or less friendly or allied to the hostile country, there is no positive means of knowing what the length of any foreign war may be. Third, a wealthy country would have all the methods of financing open to it, especially if it enjoyed good credit. Such a case would encourage the most intelligent and comprehensive study of conditions in order to construct a wise policy of financing. Fourth, a country might be wealthy and still have a poor credit standing. No country can afford to let its credit be questioned as there has seldom been a war when financial assistance from neutral countries was not desirable to a belligerent nation. Fifth, the popularity of the war is an important consideration in framing a financial policy. For a very unpopular war, a policy of financing by domestic loans might not prove effective, as its failure would tend to measure the degree of unpopularity in which the war was held and thus render the situation more acute. On the other hand, a policy of burdensome taxation might prove disastrous. In such a case, good foreign credit would be very desirable. Sixth, whatever the theory, whatever the program, everything else must give way to the mighty consideration of adequacy. War costs money. To obtain it in sufficient quantities must be done.

THE PRESENT LAW PART III

"The present is never a happy state to any human being."
—*Dr. Johnson.*

In one respect, the present war revenue and income

GOVERNMENT FINANCING

tax laws have been noteworthy and that is in the splendid and uncomplaining way in which American tax payers have met the numerous and rather perplexing demands therein made upon them. We do not hesitate to criticize the law now that Congress is welcoming such a course and is in a position to either revise or reconstruct it. Part III will in its course point out several defects which it is hoped will be remedied.

¶ *When was our present war revenue act passed and of what did it consist?*

It was passed on October 3, 1917, superseding an act of May, 1917, which was thereby repealed. The present law provides, (1) an additional war income tax and amendments to the income tax passed September 8, 1916, (2) an excess profits tax, (3) tax on beverages, (4) war tax on cigars, tobacco and manufactures thereof, (5) war tax on facilities furnished by public utilities and insurance, (6) war excise taxes, (7) war tax on admissions and dues, (8) war stamp taxes, (9) war estate taxes, (10) changes in postal rates.

¶ *Which of these taxes are relied upon mainly by the government to raise its fund?*

The income taxes and the excess profits taxes.

¶ *What is the difference between these two taxes?*

The income tax is a tax based upon the income of the individual or corporation. An excess profits tax is a tax that is based upon the net profits of an individual, partnership or corporate business which profits exceed

GOVERNMENT FINANCING

what is designated by the law to be a reasonable return (7% to 9%) upon the capital invested in the enterprise.

¶ *What is the essential difference between our excess profits tax and the British war profits tax?*

The British war profits tax is also a tax based upon the profits of the individual, partnership or corporate business, but only upon the excess of those profits earned during the war period, which, by reason of the war, have exceeded profits made in the same business during a designated period preceding the war when profits were normal. Under our law, profits made during the war period which are not so large as those made during the pre-war period will be taxed, if they exceed the percent of reasonable return. This is so, even if there is a depression in the industry caused by the war.

¶ *In what different ways is it possible for a citizen to be taxed under our present income and excess profits tax laws?*

Indirectly, he would be affected by the income and excess profits tax paid by the corporation. Directly, he may be subject to an individual excess profits tax, a normal income tax under the law of 1916, a surtax under the law of 1916, a normal tax under the law of 1917 and a surtax under the law of 1917.

¶ *Why were not all these taxes combined under one rate levy?*

The income tax passed in 1916 was designated to be a permanent measure for obtaining federal revenue. The additional income and excess profits taxes provided by

GOVERNMENT FINANCING

the act of October 3, 1917, were designed for war purposes only with the thought that they could be more easily repealed after the war if the separation was maintained.

¶ *What has been the practical effect of the separation of these taxes?*

It has tended to complicate the matter in the mind of the average man.

¶ *What has been the general criticism directed against the whole law?*

The general criticism has been that the law is involved, its language and terms difficult to interpret and its meaning obscure and perplexing.

¶ *What have been some of the criticisms of the income tax law?*

First, the taxing of earned incomes. Second, the failure of the law to deduct all actual losses, ascertained and actually realized, in all transactions engaged in for profit whether or not such losses were sustained in connection with the usual business or occupation of the tax payer. Those who criticise the law believe that every citizen should be permitted to indulge in transactions not connected with his business or occupation and should losses ensue, since his income is correspondingly decreased, they should be allowed in the income tax calculation. Third, the law has been criticized for discriminating against corporations; for instance, it is claimed that dividends paid to corporations should be treated for the purpose of the normal income tax in the same

GOVERNMENT FINANCING

manner as for the purpose of the war income tax; that is, these dividends should not have to be accounted for by the recipient corporation in preparing its income tax report. Further, it is claimed that all interest paid by a corporation should be deducted from its earnings for the purpose of computing its net taxable earnings for the reason that interest is as legitimate an item of expense as wages, materials, insurance or taxes. It is contended that the present feature of limiting the amount which can be deducted from interest on the indebtedness not exceeding the sum of the paid-in capital plus one-half of the interest bearing indebtedness outstanding at the close of the year, should be removed.

¶ *In what important respect does our present income tax law differ from our former laws?*

In that it emphasizes "information from the source" rather than "collection at the source," one instance being to require all employers and those who have paid income to others above a certain amount, to report that fact to the government.

¶ *How has this principle worked out in practice?*

The theory of information from the source is sound and essential to the proper administration of an income tax law. The main difficulty with the present law on the subject mentioned above is that it has been extremely difficult, from the reading of the law, to know just who should fill out returns and when. In returning individual incomes, the amount fixed is \$800, which has been criticized as too low, the claim being that in no case should information be required where the amount of

GOVERNMENT FINANCING

payment was less than \$1,000. There is no good reason why it should be below the minimum amount where tax-paying liability begins. In order to clarify the statute, it has also been suggested by some that the operation of the law be restricted to reporting from a specified number of the more important sources of income.

¶ *Were there any difficulties with the excess profits tax?*

There were a number of fundamental provisions in the law that were difficult to understand, so that not only the tax payer, but the administration had extreme difficulty in interpreting it. In order to meet this difficulty, a commission was appointed to assist the treasury department in the interpretation of the measure. This commission issued a series of regulations, which though not having the force of law, have been read into the law for the purpose of making it more practicable.

¶ *Is this a satisfactory situation?*

No, the validity of the regulations might be attacked as a matter of law and thus caused delay in collections when delay would be most expensive.

¶ *What are some of the principal criticisms of this law?*

First, the complexity of the language throughout the law; second, the difficulty in determining what is invested capital in such a way as to do substantial justice when used as the basis of the tax; third, the difference in the amounts of the tax due to mere accident of the form of the original corporate organization; fourth, the placing of a burden upon brains and

enterprise in a business which could not be brought under the head of nominal capital, thus taking the business out of the category of a fixed rate of 8% and placing it in a class of rapidly advancing rates which would mean much higher taxes; fifth, the narrow limits of the 7% and 9% rule when the widely different kinds and nature of businesses in all the different sections of the country, the varying risks to be run, etc., are considered; sixth, the inclusion of borrowed money in determining invested capital, thereby discouraging a business with good prospects from pushing ahead by employing the capital borrowed from others obviously more effectively and profitably than these others could do; seventh, business contractions caused by taking cash out of a business to pay the tax which was based upon book profits only; thus in many instances prohibiting a progressive policy; eighth, the confusion between capital and income, for instance, where a man had invested his brains in an enterprise with no returns until the final sale which, though representing a profit on the original investment, did not recognize the capital accumulation due to his own labor and self-denial; ninth, the lack of a bureau of appeals, to relieve the necessarily arbitrary administration of the law.

¶ *What can be said of the theory of the excess profits tax law?*

This law has been criticized as a tax upon industry which neither reaches profiteering nor is just throughout its operation. Business which is organized conservatively and which in normal times has been continuously making larger profits than the limits set by law, is unduly taxed while others, making huge profits by reason of the

GOVERNMENT FINANCING

war and organized on a more liberal basis, are not assessed as heavily in proportion. It is an indirect method of reaching incomes which has the moral disadvantages of all indirection.

PART IV

A FEW SUGGESTIONS

"I want to help you to grow as beautiful as God meant you to be when he thought of you first." —*George MacDonald.*

¶ *Suggest a program for financing America's part of the war.*

1. Adopt a national executive budget system.
2. Create a commission to analyze our wealth resources as a basis for taxation and to study and report upon the effect of taxation on production and wealth.
3. Simplify our tax system by centering on the individual income tax.
4. Use luxury or excise taxes only directly, to induce economy.
5. Use war profits taxes as necessity dictates and to control profiteering.
6. Tax to the intelligent limit.
7. Borrow the rest, if possible from our citizens, and push the war savings stamp campaign.
8. Provide for a Board of Referees and Appeals in tax matters.

GOVERNMENT FINANCING

¶ *What is a national executive budget?*

First, an estimate of federal governmental expenditures for the next fiscal year prepared through the national executive and which is based (a) upon the expenditure experience of the former year or years and (b) upon an estimate of the amount needed for the constructive program for the individual year in question. Second, a work program designed as a guide and to justify the requests made in the estimate. Third, a plan for raising the funds required, which shall be based upon an analysis of fiscal resources.

¶ *How is the budget to be adopted?*

First, by the executive presenting the budget to Congress acting as a Committee of the Whole. Second, by the executive holding himself and the department heads in readiness for examination before the Committee of the Whole for the purpose of explaining and defending the estimates of the budget. Third, by Congress passing the budget measure. Fourth, by providing for a popular decision in case of irreconcilable conflict between the executive and Congress.

¶ *What are the advantages of a budget system?*

(a) It is the indispensable first step toward placing government finance upon a business basis. (b) It injects intelligence into the government's spending program. (c) By its originating with the executive, responsibility is provided. (d) The support of the budget by the executive and its discussion in a Committee of the Whole of Congress, induces wholesome publicity for our expenditure program, insures additional responsibility and curtails the reprehensible system of log

GOVERNMENT FINANCING

rolling among the members of Congress. (e) The work program brings system into the administration of our finance. (f) The plan for raising the funds demands an intelligent analysis of our wealth resources and financial possibilities.

¶ *What are the disadvantages of the budget system and to what extent are they not disadvantages?*

First, it takes away the initiative of budget preparation from the members of Congress, which is supposed to be open to constitutional objection; however, Congress would still have the right to discuss, modify and pass the measure proposed. Second, it is alleged to be inelastic as making no provision for emergency and essential matters that may arise during the fiscal year which do not appear in the budget estimate. There is no reason why such measures should not be taken care of by a fund created for the purpose and so guarded that the desirable features of the budget system may still be preserved. Third, it places in the hands of the executive too much power. Where power is modified by responsibility, there is little danger of its arbitrary employment.

¶ *Has our government a budget system?*

It has not. During the administration of President Taft, an attempt was made to give the country a budget, but it was never allowed to be put into effective operation. During the present war, the messages of President Wilson, and the recommendations of Mr. McAdoo, Secretary of the Treasury, have been the nearest approach to budget thinking and preparation that we have had.

GOVERNMENT FINANCING

¶ *Would a commission to analyze our wealth resources and to study the effect of taxation on production and wealth, be a valuable feature in our financial program?*

The mere statement of the case shows the important work that is open to such a commission. It would naturally follow the adoption of a budget system, but should be provided for in any event. The grasp that could thereby be obtained on our national economy would be of great constructive assistance, not only during the progress of the war, but in contemplating future enterprises. It is not enough to arbitrarily and unintelligently fix the relationship between taxation and borrowing as a means of war financing. It is much more desirable that this relationship shall be established by a thorough study and analysis of our resources, always keeping in mind the importance of noting the effect of the present method and rates of taxation upon industrial development. There is no comparison between the constructive importance of such a commission and the present commission that exists for the purpose of interpreting and rendering practical the present involved law.

¶ *To what general principles should every tax system conform?*

To principles of certainty, justice, convenience, economy, simplicity, elasticity, productivity and of minimum interference with the machinery of production.

¶ *Does our present system of federal taxation meet these conditions?*

It offends particularly against principles of simplicity and justice. It might also be criticised as

GOVERNMENT FINANCING

interfering more than it should with the machinery of production.

¶ *Is there any remedy for our present complicated tax system?*

The main cause for the complexity and injustice of the present law being the provision for so many possible taxes against the same individual with their different bases for assessment and variable rates, it would seem that the remedy would obviously lie in adopting if possible some one basis of taxation that would be scientific enough in principle and elastic enough in practice to cover the needs of the government. Then, by concentrating upon the efficient collection and administration of such a tax, the whole would tend more nearly to an ideal system than our present one. Above all, such taxes should be kept as nearly direct as possible, for while direct taxes are felt, at the same time they induce responsibility, the lack of which is the most glaring deficiency in our financial system.

¶ *What theory of taxation will best meet this requirement?*

The individual income tax, studied and perfected in the justness of its application and administration. At first disapproved, it has been growing in popularity until it is now the basis of taxation of many of the best financed countries. Administrative difficulties which formerly seemed almost insuperable, within the past few years are being successfully solved by the more extensive use of this tax. The income tax is scientific and direct and can be made elastic by providing for the intelligent raising or lowering of the rates. Departing

GOVERNMENT FINANCING

from this basis may be necessary and desirable, but will always tend toward complication and duplication.

¶ *Should not tariffs and excises still be used?*

There is no reason why they should not be used if scientifically or practically justified, but they should not be made the central theory of our scheme of taxation; that is, they should not be justified as a tax, but if a tariff, say as a protection to industries, and if an excise, then as a controlling or repressing agency. The money so collected would of course be used for government needs and should be taken into consideration in creating the budget and adjusting the rates of the basic tax suggested therein.

¶ *What about luxury taxes?*

If luxury taxes are paid by the manufacturer, they are a form of indirect taxation. If paid directly by the consumer, they tend to economy in the use of non-essentials and for this reason and the additional one that the more wealthy probably buy the most luxuries, this type of tax, while less popular would be more justified than some other forms. However, it is an additional tax and would thus tend to complicate our system of taxation.

¶ *Should not heavy corporate income, excess profits or war profits taxes be used?*

As a necessary and convenient method of war financing, probably yes, and, of these the war profits tax is more clearly justified as the simpler and more effective method of reaching profiteering. But this type of taxes should not be considered as the basis of our war

GOVERNMENT FINANCING

finance program. What is really intended by them is to reach incomes and at best it is only an indirect way of doing so. Their productivity, their ease of assessment and collection and the unfinished status of the individual income tax program and collection machinery are their main justification. Their primary effect is on industry itself, whether it is the outgrowth of war or not, and they tend to repress and to retard it as well as the enterprise which plans for expanded production. This process narrows the sources of taxation and especially bears upon the more important and necessary production. As book profits in such industries are not always actual profits, the tax is often paid with great hardship and at the expense of necessary progress. It would seem to be an economical and sound policy to encourage the expansion of those industries which are producing economic goods that are in demand. If, however, a direct tax is placed upon the industry, this tax will be collected in money which at tax collecting time takes out of the business its most liquid resources.

On the other hand, when the distribution of the profits not used or justified by the business program are compelled and become income in the hands of individuals, though the same money may be taxed, there would not be the same repression of growing concerns. The same objection applies to these taxes as in the case of any indirect tax, viz., no man can figure just how much taxes he is actually paying, which tends to develop the policy of avoiding all the taxes possible. This is a basically wrong attitude of the citizen to his government. Certainty of taxation, even though the rate is high, will induce a more honorable attitude and much greater responsibility. This in turn would mean greater respect for and loyalty to the government.

GOVERNMENT FINANCING

¶ *To what extent has taxation as a method of war financing been countenanced in the past?*

Anywhere from no taxation at all, dependence being placed entirely on borrowing, to the policy of providing for the annual expenses on a peace basis, the interest on the existing debt and the interest on the annual loans. It has never been so popular as in the present war.

¶ *To what extent should our taxation policy be carried in the present war?*

The theory of our financial policy should be to transfer to the government's use as much of the past and current savings in the hands of our people as is consistent with their well-being and the continued health of our essential and basic industries. A much larger percentage of the income of our wealthy citizens should be taken directly and permanently than from those less well-to-do. A policy of economy and thrift should be urged for all and the poorer people should be given the opportunity and privilege of supporting our war by providing for them convenient investments in government bonds rather than by a too arbitrary taking of their savings by the processes of taxation.

Above all, the economic condition of the country should be kept well in mind and a policy of drastic taxation should be curbed by considerations of industrial health. If the entire cost of the war was borne by taxation only, it would require all the potential savings of the people during the war. There would be no new factories, no additions to plants, no progressive

GOVERNMENT FINANCING

enterprise during the war. Such extreme taxation would dry up the sources of wealth which produce taxes. If for no other reason than that of diversity of method and the value of its patriotic appeal, there should be borrowing and there should be left enough funds in the hands of the people to make every flotation of our bonds a success.

On the other hand, the sad experience of our Civil War with its policy of borrowing should be a lesson to us in the present war. Our policy of taxation should be a courageous one beginning gradually by placing a tax upon incomes heavy enough to be productive. These rates of tax should be rapidly increased until the burden of taxation is felt and economy is enforced. In fixing these rates, however, it must be remembered that the people's savings are not always in a liquid condition in the form of currency, but are represented by investment in homes and factories and state and municipal improvements. A loyal people will, however, cheerfully bear a heavier rate of taxation in war times than in ordinary times. Advantage should therefore be taken of this spirit. If economy and self-denial can be enforced, goods and labor will be released for government use and service. The spending power of the individual may thus be curtailed, but that of the government will be increased. Above all, the matter of the relationship between the amount of taxes raised by borrowing and by taxation should not be a matter of mere guess work, or the application to the problem of attractive and easily written fractions, but it is a matter of so great importance, as to warrant the most serious study and report upon this phase of the situation alone, of the best equipped minds in the country.

GOVERNMENT FINANCING

Q *What principles should be observed in our bond issues?*

Our bonds should be issued in amounts that can be readily sold and even over-subscribed when efficient methods of publicity and salesmanship are used. The amount of any one issue should not be so large as to encourage borrowing from banks by the patriotic in order to subscribe to the loan. If possible, the amount should conform with what can be paid for by the accumulated and current savings of the people. The term of the bonds should not be so long as to burden another generation with the problems of our own. In no event should the length of term be over an average generation (thirty years) in length—better twenty years. The rate should correspond with the market, minus the rate value for the additional stability, tax features, etc., of the bond to be issued. If anything, the rate should err in favor of encouraging the virtue of thrift in those who subscribe.

Provision should be made for their convertibility so that the patriotic and loyal who support the first issues of bonds shall not be made to suffer in comparison with those who subscribed at a later date on more favorable rates and terms. For the convenience of the government, a clause should be inserted in the bonds which will permit them to be called at some time before maturity, i. e., the estimated time when the country will recover from the war and treasury accumulations are mounting. There is no particular reason why government bonds should be freed from taxation. This is especially true in the time of war when the incomes of the rich mount rapidly, when the cost of living and taxes are

GOVERNMENT FINANCING

so high for the poor that they are unable to save and buy bonds in proportion to the more fortunate "well-to-do" and when the small pay of the soldiers also places them at a disadvantage in buying bonds. Bonds should be issued in denominations convenient to all purchasers with terms of payment which tend to stimulate payment out of savings from current earnings rather than to encourage resort to bank borrowing for the purpose.

¶ *How has our government observed these principles?*

The policy of our government in its bond issues has been an admirable one. Its domestic loans have been absorbed readily and without causing undue inflation. The amount of issue has never been so large but what it has been over-subscribed. The bonds have been issued in denominations convenient to all, the rate of interest has been fair and the later policy of subjecting the bonds to tax liability is to be commended. In other words, by reason of its intelligent policy, the government is offering the people of our country in whatever walk of life, a privilege when it asks them to invest in its securities.

¶ *What can be said of the war savings stamp policy?*

There is no plan of raising war funds that is more thoroughly justified than this. Every principle of scientific government borrowing is here preserved. It is more than borrowing. It contains a lesson in loyalty and an education in thrift and should be advocated, emphasized and pushed to the limit, at least throughout the course of the war.

GOVERNMENT FINANCING

¶ *What would be the justification and functions of a Board of Reference and Appeals?*

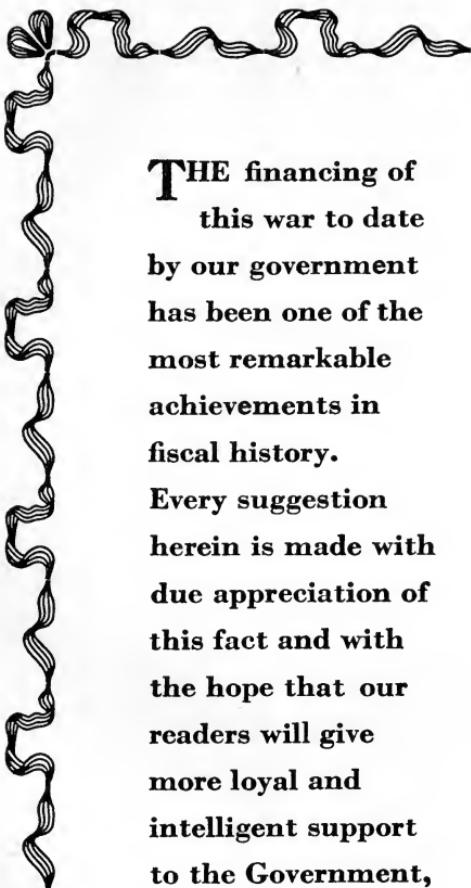
According to American theory, provision is generally made for a reference and appeal from those departments which are primarily charged with the administration of laws so that any injustice arising from improper or arbitrary rulings may be corrected by a higher tribunal. The Treasury Department is bound to make mistakes and its officials will in the nature of things become more or less arbitrary unless they are intelligently checked. On the other hand, there will be cases of doubt arising in the administration of our tax laws, however well they may be constructed, which will save time and annoyance if they can be referred to an authorized Board for a decision. The English practice provides for this reference and the same should be adopted here, by creating a Board of Reference and Appeals independent of the Treasury Department.

¶ *Is the adoption of a national budget system and a scientific method of taxation for war purposes only?*

Their adoption in time of war is the best guarantee of successful war financing, but it is for times of peace and the periods of our normal and constructive development as a nation, that the adoption of these two measures is most vital. Each is necessary to the other. A scientific plan of taxation is bound to follow the intelligent estimation of our country's needs and the careful planning for its development and cannot properly exist

GOVERNMENT FINANCING

unless there is first brought to bear upon it the indispensable requisites of scientific construction, i. e., intelligent planning. A better system of taxation means more responsible citizenship. The adoption of a budget system means responsible government. Both are essential to America's greater destiny.



THE financing of
this war to date
by our government
has been one of the
most remarkable
achievements in
fiscal history.
Every suggestion
herein is made with
due appreciation of
this fact and with
the hope that our
readers will give
more loyal and
intelligent support
to the Government,
whatever its
program.

THIS BOOK IS DUE ON THE LAST DATE
STAMPED BELOW

AN INITIAL FINE OF 25 CENTS
WILL BE ASSESSED FOR FAILURE TO RETURN
THIS BOOK ON THE DATE DUE. THE PENALTY
WILL INCREASE TO 50 CENTS ON THE FOURTH
DAY AND TO \$1.00 ON THE SEVENTH DAY
OVERDUE.

SEP 15 1934

LD 21-100m-7, '33



THIS BOOK IS DUE ON THE LAST DATE
STAMPED BELOW

AN INITIAL FINE OF 25 CENTS

WILL BE ASSESSED FOR FAILURE TO RETURN THIS BOOK ON THE DATE DUE. THE PENALTY WILL INCREASE TO 50 CENTS ON THE FOURTH DAY AND TO \$1.00 ON THE SEVENTH DAY OVERDUE.

OCT 18 1934	
NOV 20 1935	
NOV 25 1935	
MAR 28 1938	

YC 23139

5-257

384485

UNIVERSITY OF CALIFORNIA LIBRARY

